Second health mega-merger in three weeks

Anthem to buy Cigna, creating biggest US health insurer

Kate Randall
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Anthem Inc. said Friday it has agreed to acquire Cigna Corp. for $54 billion, creating the largest US health insurance company by enrollment. The move is the second mega-merger announced in the health care industry in last three weeks. On July 3, Aetna Inc. and Humana Inc., the third and fourth largest insurers by revenue at the time, said they were merging in a $37 billion deal.

The Anthem-Cigna deal, which must be approved by regulators, is the latest in a flurry of mergers and acquisitions encouraged by the Affordable Care Act (ACA), the Obama administration's health care overhaul popularly known as Obamacare. Anthem has said it is confident it can obtain the necessary regulatory approval and expects to close on the merger in the second half of 2016.

The two recent mergers, if approved, would reduce the number of giant health insurers from five to three. The Anthem-Cigna combination would create a company with some $115 billion in annual revenue and 53 million members. UnitedHealth Group Inc., with about 46 million members, would be knocked out of first place. Aetna and Humana combined would have about 33 million members. The three insurance behemoths would insure about two of every five Americans.

Anthem, based in Indianapolis, Indiana, is expected to pay about $188 a share for Bloomfield, Conn.-based Cigna. As with the Aetna-Humana merger, the latest deal is part of drive by health insurers to take advantage of the rising revenues and increased customer base resulting from the ACA, which was signed into law by President Obama in 2010.

Under the ACA's "individual mandate," most people who are not insured through their employer or a government program such as Medicare or Medicaid must obtain insurance or pay a significant tax penalty. The merged companies hope to cash in on the expanded market as well as profit from the ACA's drive to cut health care costs and move insurance away from the "fee for service" model.

The insurers also see consolidation as a way to counter the ACA's requirement that 80 percent of premium revenues go toward medical care and related activities. By means of mergers, the new companies can eliminate administrative costs through layoffs in human resources, actuarial and other departments, increasing their profits. The Anthem-Cigna deal is projected to result in $2 billion in savings, while the Aetna-Humana merger would bring $1.5 billion in savings.

Anthem is currently the largest for-profit managed health care company in the Blue Cross and Blue Shield Association (BCBSA). It dominates the employer-based insurance markets in 10 of the 14 states where it owns BSCSA plans, particularly in individual and small-employer plans. Anthem has more than 618,000 people enrolled in its Medicare Advantage plans, the private-insurer version of the government Medicare program for seniors.

Cigna is mainly known for its administration of coverage for large employers. It also bolstered its Medicare business with its 2012 acquisition of HealthSpring and currently enrolls nearly 500,000 through Medicare.

The Anthem-Cigna merger leaves individuals and employers across the country with even less choice in obtaining coverage. Paula Wade of Decision Resources Group told the *Washington Post* that in Connecticut, for

example, “Anthem already holds 35 percent of the commercial market share, and the addition of Cigna brings their market share to 51 percent statewide.”

Less competition among the insurance giants will invariably lead to higher premiums for the insured. A 2012 study of the results of a 1999 merger between Aetna and Prudential found that premiums rose by 7 percent.

Insurance companies have been emboldened by the June 25 US Supreme Court ruling upholding a key component of the ACA—the government tax subsidies provided to some people purchasing plans on the exchanges set up under the law. Recent filings by insurers with state insurance commissions show that companies are seeking rate increases of 20 percent to 40 percent and more. In some instances, state commissions have granted premium increases in excess of the requests.

The merger mania and consolidation demonstrate the thoroughly corporate character of Obamacare. The top insurers and their executives are positioning themselves to derive the maximum profit not only by raising premiums, but also by incentivizing health care providers to slash costs by cutting back on medical services and expensive drugs and treatments for the majority of working class and middle class people.

Encouraged by Obamacare, businesses are increasing the employee share of premiums, deductibles and other out-of-pocket costs. Growing numbers of public and private employers are opting to end coverage altogether and shift employees onto the Obamacare exchanges, with or without providing workers with a stipend to go toward the premiums.

While the vast majority of Americans are seeing their insurance costs rise while health care deteriorates, the big insurers are cashing in on the Obamacare windfall. According to the *Wall Street Journal*, if merged immediately, Anthem-Cigna and Aetna-Humana would each have projected revenues of roughly $115 billion 2015, and UnitedHealth would have $154 billion.

If the Anthem-Cigna merger is approved, Anthem CEO Joseph Swedish will serve as chairman and chief executive of the new company, and Cigna CEO David Cordani will be the president and chief operating officer.

According to Salary.com, Swedish took in $13,532,549 in total compensation for the fiscal year that ended in 2014; Cordani made even more, a total of $14,355,586.